

Message Text

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ACTION EUR-25

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TRSE-00 FEA-02 SCI-06 INT-08 SIL-01 LAB-06 AGR-20

DLOS-07 COA-02 IO-14 AID-20 SWF-02 EPA-04 CEQ-02

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FM AMEMBASSY STOCKHOLM

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AMEMBASSY HELSINKI

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C O N F I D E N T I A L STOCKHOLM 2968

E.O. 11652: GDS

TAGS: PFOR PINT SW

SUBJ: POLITICAL AND ECONOMIC TRENDS IN SWEDEN, 2ND QUARTER
1974

REF: STOCKHOLM 1253

SUMMARY: AS SWEDEN PREPARES TO CLOSE DOWN FOR JULY AS
USUAL, THE POLITICAL SITUATION APPEARS RELATIVELY STABLE
AND THE OVERALL ECONOMIC OUTLOOK FAVORABLE. IN CONTRAST
TO EARLIER INDICATIONS, PRIME MINISTER PALME'S SOCIAL
DEMOCRATIC GOVERNMENT NOW SEEMS TO STAND A GOOD CHANCE
OF REMAINING IN POWER AT LEAST ANOTHER YEAR AND PROBABLY
UNTIL THE NEXT ELECTIONS (SCHEDULED FOR SEPTEMBER 1976).
IN THE WANING DAYS OF THE LAST RIKSDAG, PALME SUCCEEDED
IN SPLITTING THE BOURGEOIS OPPOSITION PARTIES AND DECREAS-
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ING HIS DEPENDENCY UPON THE COMMUNIST VOTES TO STAY IN

POWER. END SUMMARY.

1. WITH THE THREATENED ELECTIONS FOR SEPTEMBER OF THIS YEAR DEFINITELY OFF, PALME GOES TO HIS ISLAND COTTAGE WITH LITTLE TO WORRY ABOUT ON THE IMMEDIATE POLITICAL FRONT. SWEDEN'S 175-175 RIKSDAG DEADLOCK TURNED OUT TO BE NO GREAT PROBLEM FOR THE PRIME MINISTER. HE HAS INDUCED BOTH THE CENTER AND THE LIBERALS TO SUPPORT HIM ON VARIOUS ISSUES, ISOLATING THE COMMUNISTS ON THE LEFT AND THE MODERATES ON THE RIGHT. IN MAY, THE SOCIAL DEMOCRATS AND LIBERALS FORMED A TENTATIVE ALLIANCE, STIMULATED BY A COMMON DESIRE TO HEAD OFF NEW ELECTIONS. PUBLIC OPINION POLLS JUST PUBLISHED SHOW BOTH SOCIAL DEMOCRATS AND LIBERALS GAINING AT THE EXPENSE OF THE CENTER, THUS GIVING REASON FOR THE INFORMAL ALLIANCE TO CONTINUE INTO THE FALL.

2. ON THE FOREIGN AFFAIRS FRONT, THE MAJOR DEVELOPMENT OF THE QUARTER, AND INDEED OF THE PAST TWO YEARS, WAS THE RESUMPTION OF NORMAL DIPLOMATIC RELATIONS WITH THE UNITED STATES AFTER A 20-MONTH HIATUS CAUSED BY PRIME MINISTER PALME'S UNRESTRAINED CRITICISM OF US POLICY IN VIETNAM. THE SWEDISH GOVERNMENT HAS GONE TO CONSIDERABLE LENGTHS TO ASSURE A CORDIAL WELCOME TO THE NEWLY-ARRIVED US AMBASSADOR, SYMBOLIZED BY THE NEARLY TWO-HOUR LONG FIRST MEETING BETWEEN THE AMBASSADOR AND PRIME MINISTER PALME IN EARLY JUNE. THE GOVERNMENT'S DISCREET DISCOURAGEMENT OF THE JULY 4 DEMONSTRATION AGAINST THE US EMBASSY IS ANOTHER INDICATION OF THE GRADUAL GOVERNMENT SHIFT AWAY FROM ITS FORMER POLICY OF TACIT SYMPATHY FOR ANTI-US DEMONSTRATIONS.

3. OBSERVERS ALSO NOTE A SLIGHT MODERATING TENDENCY IN THE MEDIA'S HANDLING OF US TOPICS, AFTER YEARS OF UNRELENTING AND, AT TIMES, VEHEMENT CRITICISM OF US GOVERNMENT AND INSTITUTIONS. TO BE SURE, THE PERCEPTIONS OF THE TWO GOVERNMENTS TOWARDS A NUMBER OF WORLD PROBLEMS REMAIN FAR APART. NEVERTHELESS, THE OVERALL EFFORT OF THE SWEDISH LEADERSHIP TO RELAX ITS FORMER CONFRONTATION POSTURE TOWARDS THE US SEEMS CLEAR.

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4. THE DOMESTIC ECONOMY WAS BUOYANT DURING THE SECOND QUARTER. THE SHORT-TERM OUTLOOK IS GOOD AND NOT LIKELY TO CAUSE POLITICAL CONCERN. FEARS CONCERNING THE OIL CRISIS HAVE FADED AND, ALTHOUGH HIGHER PETROLEUM PRICES TOGETHER WITH OTHER MATERIAL COSTS HAVE BOOSTED INTERNAL PRICES, THE ADJUSTMENTS REQUIRED HAVE NOT PRESENTED INSURMOUNTABLE DIFFICULTIES. THE GROSS DOMESTIC PRODUCT IS OFFICIALLY PREDICTED TO RISE BY AN ESTIMATED 4.5 PER-

CENT IN REAL TERMS THIS YEAR. CONSUMER PRICES WILL GO UP PERHAPS BY 10-11 PERCENT.

5. IT NOW APPEARS LIKELY THAT THERE WILL BE A BALANCE OF PAYMENTS DEFICIT EXCEEDING \$500 MILLION, BUT FOREIGN EXCHANGE HOLDINGS ARE ADEQUATE TO MEET IT. CURRENTLY, EXPORT DEMAND FOR SWEDISH PRODUCTS (FOREST-BASED PRODUCTS, MACHINERY, SHIPS) IS CONTINUING STRONG AND HIGHER PRICES HAVE STRENGTHENED RECEIPTS.

6. HIGH LEVEL ACTIVITIES HAVE BEEN SUPPORTED ALSO BY RISING INDUSTRIAL INVESTMENTS AND INVENTORY BUILDING. INDUSTRY IS OPERATING NOW AT NEAR CAPACITY. UNEMPLOYMENT IS MINIMAL (1.5 PERCENT IN MAY) AND SHORTAGES OF SKILLED WORKERS ARE BECOMING EVIDENT, INDICATING THE ECONOMY MAY BE OVERHEATING SOMEWHAT.

7. STIMULATIVE MEASURES (LOWER TAXES AND SUBSIDIES) TAKEN IN APRIL APPEAR NOT TO HAVE GENERATED AS MUCH CONSUMER BUYING AS ANTICIPATED. PARTLY OFFSETTING THE STIMULATIVE MEASURES TO ENCOURAGE CONSUMER PURCHASES WERE STEPS TAKEN BY THE CENTRAL BANK RAISING THE DISCOUNT RATE AND THE COMMERCIAL BANKS' RESERVE REQUIREMENTS. THESE MEASURES ARE INTENDED TO STEM THE OUTFLOW OF FOREIGN EXCHANGE CAUSED IN PART BY THE SUBSTANTIAL MARGIN BETWEEN THE LOW SWEDISH INTEREST RATE (PRIME RATE OF 8.75 PERCENT) AND RATES PREVAILING IN OTHER MARKETS. FOREIGN EXCHANGE HOLDINGS ARE NOW EQUAL TO TWO AND ONE HALF MONTHS IMPORTS. THIS SITUATION COULD REQUIRE FURTHER SWEDISH ACTIONS IN RESTRICT DOMESTIC CREDIT AND POSSIBLY TO BORROW FROM ABROAD. DIRECT ACTION TO SLOW DOWN THE IMPORT INCREASE (PLUS 11-12 PERCENT BY VOLUME DURING JANUARY-MAY) IS NOT ANTICIPATED.

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8. INTERNATIONALLY, SWEDISH ECONOMIC POLICIES GENERALLY HAVE BEEN IN LINE WITH OUR VIEWS ALTHOUGH SWEDEN'S GREATER PREOCCUPATION WITH THE NEED TO SUPPORT DEVELOPING COUNTRIES HAS BEEN REFLECTED IN ITS POSITION IN THE LAW OF THE SEA CONFERENCE, AID TO THESE COUNTRIES, DISCUSSIONS IN THE OECD OIL COMMITTEE, AND DISCUSSIONS ON THE ROLE OF MULTINATIONAL COMPANIES. SWEDEN HAS SUPPORTED US WITH RESPECT TO THE FOOD AIR CONVENTION AND PREPARATIONS FOR THE WORLD FOOD CONFERENCE. AS A TANGIBLE EVIDENCE OF SWEDISH DESIRE TO ASSIST THE DEVELOPING COUNTRIES, THE PARLIAMENT AGREED TO RAISE BUDGETARY EXPENDITURES FOR THIS PURPOSE TO ONE PERCENT OF GNP IN THE NEXT NATIONAL BUDGET.

9. PROBLEMS AFFECTING ENERGY RESOURCES, ENVIRONMENT AND

INTERNATIONAL MONETARY ADJUSTMENTS ARE AREAS IN WHICH THE SWEDISH GOVERNMENT HAS PARTICULAR INTERESTS. THE USG SHOULD CONTINUE TO CONSULT AND COORDINATE CLOSELY WITH IT. OUR CONTINUING EFFORTS IN THIS DIRECTION MAY HELP THE SWEDES TO REPRESS THEIR SCHIZOPHRENIC CONCERN AT BEING EXCLUDED FROM GREAT KEY-POWER DECISIONS, HOWEVER CONDUCTIVE THESE DECISIONS MAY BE TO A MORE STABLE BASIS FOR WORLD PEACE, AND MAY ALSO ENCOURAGE A GRADUALLY MORE CONSTRUCTIVE SWEDISH APPROACH ON INTERNATIONAL ISSUES OF PARTICULAR CONCERN TO US.
JOHNSON

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